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Franchising

In Business For Yourself Not By Yourself

Franchising offers an excellent opportunity for you to be in business for yourself, while having access to the support and expertise of a successful business program. When you hear the word "franchise," you probably think of fast food restaurants such as Burger King, McDonald's or Wendy's. But the truth is franchising is so much wider. There are franchises available in almost every business area you can think of and in all price ranges.

Franchising in Canada is becoming more popular each year. It is not only getting bigger, but also getting better - and that has implications for all entrepreneurs. A decade of corporate downsizing has injected the sector with thousands of experienced managers looking to run their own firms, and they're taking advantage of a growing range of franchise options.

In our fast-paced economy, the rare capacity for rapid growth and quick branding could make franchising your perfect business model - or the driving force behind your next competitor. To help pinpoint some options, here are some trends in franchising.



Volume Number 3 • Issue Number 2



Beyond Fast-food

Franchising is fast shedding its fast-food image, as more of Canada's growth industries are becoming franchise concepts. Canada's fastest growing franchise segment is consumer and business services, where the number of units is growing by more than 80 per cent a year - doubling the rate of the franchise industry as a whole.

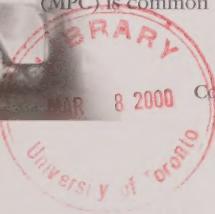
Franchisors are tapping the growing demand for help with household chores. Most of whom are home-based - cutting down on the equity requirement. For example, where you might spend \$1 million on a name-brand-fast-food outlet, a landscaping or housecleaning franchise may cost as little as \$25,000. The opportunity for franchisors to come up with business concepts that work is growing rapidly as is the demand for them.

Express is Best

Although, fast-food franchisors are fuelling the growth of take-out and drive-thru concepts, they are not the only ones that can benefit from the express craze. Driving the express movement is the desire to profit from crammed consumer schedules. Smaller locations are easier to find than full-sized mall spaces or stand alone properties. Lower rents and building costs mean reduced overheads.

The Money

The rising stability of franchise operators has to the increased number of financiers creating new plans that make it easier for companies to acquire startup and growth capital. A practice called the Managing Partner Concept (MPC) is common among drugstore



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A Message from Ron Duhamel, *Secretary of State*

Iwelcome the opportunity to include in each issue of Access West a column which allows me to share some of my thoughts on what the Department is currently involved with and some insight on its future undertakings."

Public service – client service – customer service. By any other name, these words symbolize excellent service and I am pleased to announce that on December 6, 1999, the Clerk of the Privy Council presented the managers of the national network of Canada Business Service Centres (CBSC) with this year's Public Service Award for public service excellence.

In the West, these Business Centres are a vital component of our Western Canada Business Service Network, with offices in Vancouver, Edmonton, Saskatoon and Winnipeg. Designed to offer small and medium-sized businesses "one-stop shopping" for information on government programs, services and business legislation along with business counseling and resources, these centres are able to meet a variety of client needs.

Every year across Western Canada, the four Business Centres serve tens of thousands of small business clients over the phone or in person and hundreds of thousands more through their web sites. Services are also provided by e-mail, fax, and through seminars, tours, speaking engagements, tradeshows and special events.

The Public Service Award for Excellence in Service Delivery recognizes the Canada Business Service Centre's commitment to excellence and innovation, and brings to the forefront an achievement which makes us all proud.

Working together, Business Service Centre employees create opportunities for new and existing entrepreneurs. They provide in-person information about government and guidance in the use of innovative on-line tools. This award, honouring their

work, confirms the value of federal-provincial partnerships to serve business. It is also proof that these partnerships are working and working well.

Examples of some of the Western CBSC-led developments include:

- The Interactive Business Planner, an award-winning web-based business planning tool which is being used to develop more than 1,000 business plans across Canada.
- Interactive web sites providing timely business information and links to business-related Internet sites. Also available is the on-line small business workshop, a useful tool to help entrepreneurs develop business ideas or improve an existing business.
- Regional Access and Community Help (REACH), a program that combines innovative technology with strategic partnerships to deliver the services of the business centre to clients outside the main centers.
- Public access Internet terminals that are easy to use for those unfamiliar with the Internet or who use English as a second language.
- A resource library containing an extensive collection of business-related books, directories, periodicals, manuals and a full complement of electronic products, including CD ROMs, databases and business planning software. Public access computers are also available for client use.
- A toll-free business information line.
- Information sessions in the spring and fall, featuring topics such as starting your own home-based business, business planning, marketing, tips on saving tax and more.
- Info-FAX, a convenient 24-hour fax on demand service (clients phone in toll-free or locally and choose from a selection of business information documents to be faxed back at no charge).

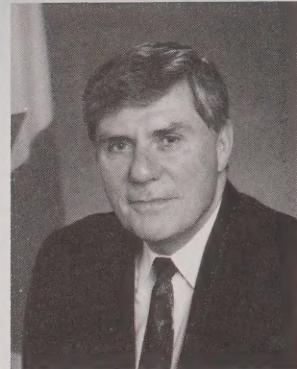
If you would like further information on any of these services, I invite you to contact the Western Canada Business Service Centre closest to you:

British Columbia - Toll Free:
1-800-667-2272

Alberta - Toll Free:
1-800-272-9675

Saskatchewan - Toll Free:
1-800-667-4374

Manitoba - Toll Free:
1-800-665-2019



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chains and can be adapted for most franchises. In effect, the concept sees the franchiser buy 51 per cent interest in a new franchise - and pay half the startup costs - in return for 35 per cent of profits for the duration of the franchise agreement.

The MPC appeals to three types of potential franchises: investors who don't actually want to run the day-to-day operations of their franchise; those who lack the initial equity required for traditional franchises; and gun-shy purchasers worried about the franchisor.

Legal Agreements

Franchise agreements can vary even among the same chain. So, it is very important to have someone with the knowledge required to assess such agreements before signing on the bottom line. Without that knowledge, many franchisees are locked into bad deals that often result in their surrendering the business back to the franchisors. Today's better-educated franchisee is less likely to tolerate a crippling business arrangement.

A specialist franchise lawyer will check out many aspects on your behalf from studying the franchise agreement to checking through tenancy agreements. While most franchise agreements are, and should be, set in stone; it is important that the franchisee understand fully the agreement that is being signed and the obligations and restrictions that are contained therein.

Purchasing a franchise is an important decision. It is important to get advice from a solicitor with information on current legislation and whose experience will guide you through the process.

Franchise Legislation

Both franchisors and franchisees have been calling for legislation. Current legislation for franchises falls under provincial purview and so far, Alberta is the only province with legislation specifically devoted to franchising, where franchisors are required to disclose their financial positions or the success of their franchises. Recent proposed legislation in Ontario could lead the way for the rest of Canada in developing provincial legislation for those involved in the franchising sector.

Frequently Asked Franchising Questions

Why do companies franchise?

For a company with a product or service to sell, franchising provides an excellent opportunity for rapid expansion without an enormous outlay of capital. It is a distribution system that allows a business to conserve capital and, at the same time, achieve fast market penetration making it a very attractive proposition to most business owners.

Why should I consider franchising?

Franchising allows you to follow a tried and tested business system, which will greatly improve your chances of success. There are many individuals who like you, want to be their own boss. They see no long-range security in working for someone else, and feel their potential income will always be limited as an employee. Franchising offers these individuals an opportunity to break free and own their own business, minimizing the risk of opening an entirely new business from scratch.

What should I look for in a franchise?

When you purchase a franchise, you are entering into a long-term partnership with the franchisor. Therefore it is, vitally important to check the background and business performance of your prospective partner. It is recommended that your legal advisors help you with this part.

At this stage, when you are just commencing your search, look at some key questions to ask yourself:

- Does the product or service interest you and fire you with enthusiasm?
- Does the company have name awareness?
- Does it have a successful operation and marketing system?
- Is it a viable proposition?
- Do you understand the role you will play?

These questions are only the starting point. A great deal of additional research will be required before you finally satisfy yourself that you stand a good chance of being successful by purchasing a particular franchise. Above all else, make sure you talk to franchisees who are already operating. Then, speak to your legal advisor.

Monitoring Trends for the Life of Your Business

Monitoring trends is one of the most important things a business can do to know when it is time to re-evaluate the business plan and decide if there are changes to be made. Careful and continued analysis of consumer, economic and industry trends is an important part of developing new strategies as is knowing which of those trends could affect your business.

Knowing which trends you should monitor and how to monitor them is key to developing a successful strategy. If you are unsure as to which areas to monitor, just ask yourself, "If something happened to change in this area, how would it affect my business?"

In 1996 and 1997, the Policy Research Committee identified several key mega trends, or underlying forces, driving many of the social and economic changes taking place in Canada. These mega trends may help determine the framework within which your small business may respond to new challenges and opportunities. The mega trends include:

Technological Change and the Information Revolution

The spread of information technology is changing the economy. The new knowledge-based society is being hailed as equivalent in scope and scale to the Industrial Revolution, which transformed the economy and society at the turn of the last century.

Information technologies offer unprecedented access to information, new learning tools and new cultural and entertainment forms.

This trend has influenced the growth of new industries and retooled old ones. Small businesses are clearly influenced by the growth in information technology and the opportunities to expand and reach new markets or audiences.

Environmental Pressures

Environmental challenges such as the quality of our air and water, the ozone layer, climate change, disposal of toxic substances, biodiversity and sustainable resource management face all of us in everything we do. As our understanding of environmental issues grows, we are realizing that sensitivity to pollution and other environmental stresses tends to be greater than previously thought.

The scale and nature of environmental risks are expected to evolve considerably. Rapid population growth and industrialization of the developing world will place increasing pressure on domestic and global environmental resources.



This trend has the enormity to affect every small business. As an example, the family farm grows or raises genetically altered products, the corner store sells these products and the conscientious consumers buy these products.

Other examples would include cleaning companies selling environmentally friendly or "green" products and the science and innovation companies researching and building new modes of emissions-free transportation.

Changing Demographics

Canada's population growth is slowing, due to an aging population with a longer life expectancy and weak fertility rates. The decline in Canada's fertility rate is linked to the marked change in the role of women over the past generation. With the majority of women now combining care responsibilities and full-time paid employment, family life has been transformed. The family with two earners has replaced the former typical family of male breadwinner and mother at home. As well, the proportion of lone-parent families continues to grow. Another key source of demographic change is immigration.

Canada receives more immigrants per capita than most other countries. The ethnic mix has changed dramatically over the past 40 years. The majority of immigrants to Canada now come from Asia and the Middle East. Projecting current trends, visible minorities will account for one in five Canadians by 2016, up from one in 20 in 1981, with half of them living in Toronto and Vancouver. Other aspects of demographic change include increasing urbanization and the fast growing Aboriginal population, which has a fertility rate twice as high as the national rate.

Globalization and American Influence

For Canada, the single most important sign of globalization is our relationship with the United States. Canada's dependence on the American market continues to grow and with over one billion dollars of trade daily, Canada and the United States are each other's largest economic partners by far. Stronger and more open commercial relations with the United States and Mexico offer Canada tremendous economic opportunities.

This trend may be of interest to a small business interested in expanding sales to include the U.S. or Mexico. Understanding the relationship among these three countries, along with trading regulations, will facilitate your move into new markets.

Staying informed is the key to keeping on top of trends and how these may affect the way your business operates. One way to stay informed is to read your local and regional newspapers, trade publications, review consumer trends and

statistics. Suppliers are also great sources of information. Compare information from different sources and discuss your conclusions with others. No one says everyone has to believe the same thing, but seeing their perspective will help you to review your own findings more objectively. Of course these days, regularly surfing the internet may be the quickest and easiest way of obtaining information. Here are a few web sites which may provide useful information on monitoring trends. Trends that could affect your small business.

Policy and Research Initiative
<http://www.policyresearch.gc.ca/>

Industry Canada
<http://www.strategis/>

Canadian Policy Research Networks
<http://www.cprn.com>

The Canada West Foundation
<http://www.cwf.ca/>

Planning and Negotiating your Financial Needs



The best time to plan and negotiate your fiscal credit needs is at your year-end, while your financial statement is still correct. It may be tempting to anticipate that your next interim statement will improve six months later, and frustrating to find that you would have been better off with a reduced line of credit at the beginning of the year rather than to have none at all in the middle of a poor season.

Plan your meeting with your banker to arrange your borrowing needs well in advance of when you will actually need the funds. With time on your side, and banks

being in competition to attract top calibre business accounts, you may find the bank more willing to negotiate competitive terms, such as security margins, interest rates and collateral requirements. When you are discussing your loan options, have all the information, which will be required, available for head office approval of the loan. Put your loan request in writing and finalize all loan documents before making any other financial commitments.

When you are determining how much you will need to meet your business requirements, take into consideration the initial and daily costs of running your business. Initial costs include things such as land, building, fixture, machinery, supplies, vehicles, pre-opening expenses and opening inventory. Daily operating costs include rising inventories, payroll, rent, taxes, advertising, accounts receivable and so on.

To do this, you will need to prepare a cash flow - a record of the cash, which comes in and goes out of your business. This record details all the sources which could bring cash into your business in any given month (cash sales, paid receivables, sale of an asset, interest on an investment, rental income) and detail the ways in which cash leaves your business (wages, expenses, asset purchases, owner drawings).

A cash flow forecast, will give you a reasonable estimate of your cash requirements for the first 12 months. With this forecast, you predict all the funds you will receive and disburse, and the resulting surplus or deficit. Take into account not only the operating and capital budgets, but also the ratio of cash sales to credit sales and the paying habits of your customers. To estimate cash outflow you must also consider the promptness with which you intend to pay for your materials and merchandise.

By making a cash flow analysis you can estimate:

- how much cash will be needed to operate your business each month;
- when you will need additional short-term funds from the bank; and
- when you will have surplus funds to reduce your bank loans.

This information can assist you in timing your capital expenditures appropriately, accelerate collection of accounts receivable, minimize the possibility a cash shortage, plan short-term borrowing well in advance and perhaps invest a temporary surplus. If you cannot do a cash flow forecast yourself, it would be best to hire someone to do it for you.

When negotiating your business loan, it is a good idea not to borrow using an overdraft unless your line of credit is established for such borrowing. Instead, arrange separately and annually a line of credit to meet peak requirements (but borrow only what is necessary, when necessary). Any verbal line of credit for recurring overdrafts should be formalized as soon as possible.

It is easier to borrow money by pledging fixed assets. So, don't put all your equity into machinery or buildings; save it for working capital needs. To provide working capital, banks can provide short-term loans, long-term mortgage loans and loans against inventory.

Short term financing is usually used to pay for current assets, such as inventory accounts receivable and other working capital requirements, and is usually covered by a demand note at the bank. Finance rates can fluctuate weekly or monthly depending upon the need. A long-term loan is usually used to buy fixed assets such as buildings, machinery and fixtures, and is paid back in equal monthly installments.

At some point most businesses will require financial aid. Your relationship with a financial institution begins even before you start your business. So, develop a solid working relationship with your bank from the very beginning. Faster and better services are supplied when a lending institution is familiar with its customers and their business. In that environment, suggestions for keeping a business financially healthy are more readily given, crisis borrowing can be avoided, and good loan planning can be developed.

The Competitive Edge is Getting Sharper

To maintain a competitive advantage in a marketplace which is rapidly evolving, Canadian business leaders have to embrace new ways of thinking. For high technology businesses, this means focusing on innovation, continuous learning and the development of intellectual assets.

The challenge to stay competitive has encouraged a consortium of industry and academic partners to create the **Masters of Software Technology program (WestMOST)** currently available through the University of Alberta, Technical University of B.C. and University of Victoria.

"The software industry is well aware that information and knowledge are replacing material goods as the chief operating capital of a business," notes Eldon Wig, WestMOST's Executive Director.

"Time-to-market and first-mover advantages are very real issues in the world of software," adds Wig. "It doesn't matter if you have a 'hot' product idea, you still have to get it to market before the competition."

Unfortunately, the development of high technology products has often been plagued with both time and budgetary problems. Emerging software engineering methods, tools and processes from university and industry labs are addressing problems of software productivity and quality. These require appropriate software technology training and education programs if they are going to impact the bottom line.

"WestMOST amplifies the linkages between industry and academia," says Wig. "We have the pragmatic insights of the industry and the intellectual acuity of the academic community because they are both at the table."

The WestMOST program possesses three unique characteristics: Flexibility, Credibility and Relevance.

Flexibility

Course format is extremely flexible - ranging from full-term offerings to intensive five-and six-day courses.

Courses are delivered at company sites or via distance education mediums. The flexible delivery format coupled with emerging communication technologies supports a long-term goal of providing a

"virtual" classroom environment for WestMOST students. All students are expected to remain employed in the software industry while enrolled in the program. "We see the ability to combine work with the pursuit of an advanced degree as a key benefit," notes Wig. Employers do not have to interrupt their workflow, and their employees can maintain their current income and standard of living.



Credibility

Students are taught, coached and mentored by leaders in software engineering, product development and project management. Instructors, like Dr. Paul Sorenson, an internationally respected computer science professor at the University of Alberta, are engaged in leading edge research to improve software quality. Dr. Sorenson typifies the caliber of the WestMOST instructor base.

Relevance

Instructors use industrial case studies developed in cooperation with the student and their employer. Students apply the information learned to relevant problems at their workplace.

Completion of the full program (8 courses plus an onsite project) takes approximately 2 to 3 years. "The program attracts mid to senior-level software developers who want to enhance their technical skills and move to the highest levels of team leadership and project management," says Wig. "We are focused on processes rather than technologies, with the primary goal of equipping students with advanced capabilities that align with either a software architect role or a software manager role."

Although the Canadian technology marketplace is a dynamic and exciting environment, its position in the global community will only be fully realized when professional development and education are seen as a long-term investment on behalf of both

employee and employer. This is a perspective supported by the National Research Council. The council found that 76 per cent of companies which considered software or software skills as 'mission critical' would participate in long-term training if it was sufficiently supported by industry, government and academic interests.

It is both ironic and unfortunate, however, that most organizations focus on short-term goals at the expense of long-term ones. Perhaps if CEOs and senior managers considered a cost/benefit analysis, they would discover that the return-on-investment in long-term training and employee development far outweighs the risks of focusing on the short term.

Consider the perspective of the employee. Their needs are strongly aligned with the goals most companies have, which is to remain profitable, develop new interests, and feel they are an important part of their community. By encouraging and empowering employees to gain new skills, you are adding value to your company, for which they will reward you with increased productivity and a revitalized interest in developing your company's competitive edge.

Lastly, employees who feel their company values their contributions will be less likely to be looking for opportunities elsewhere. Given that the cost of hiring and training new IT talent is estimated to exceed \$25,000, there is an obvious bottom-line incentive to gain and keep your employees' loyalties.

Software companies polled by the National Research Council identified four general business issues that directly impacted their bottom line. These were recruiting quality people, delivering customer satisfaction, keeping delivery schedules and managing growth. Management consultants such as Dave Grafton, Regional Manager of LGS Edmonton, foresee a positive role for education in addressing these concerns. "Ultimately I believe the WestMOST program will be an ideal vehicle for strengthening the technical leadership and competitiveness of our senior IT professionals," says Grafton.

Institutions affiliated with WestMOST provide an accredited master's degree program open to individuals who have an undergraduate degree in computing science or a similar field, and at least two years of relevant work experience in the software industry.

For more information, visit the WestMOST web site at: www.westmost.ca

Or, feel free to contact:

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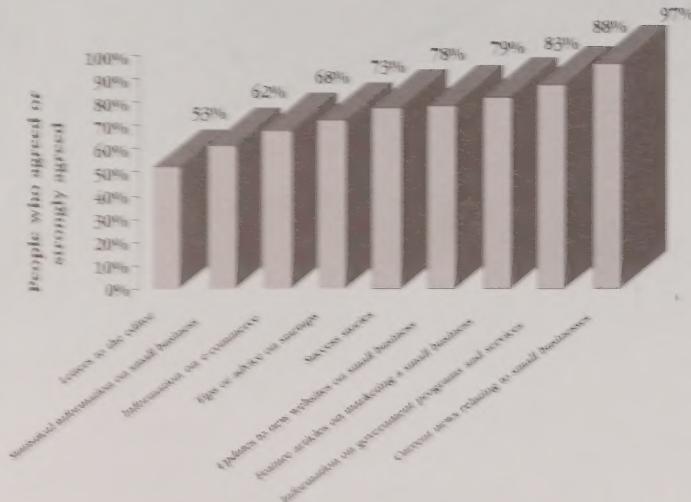
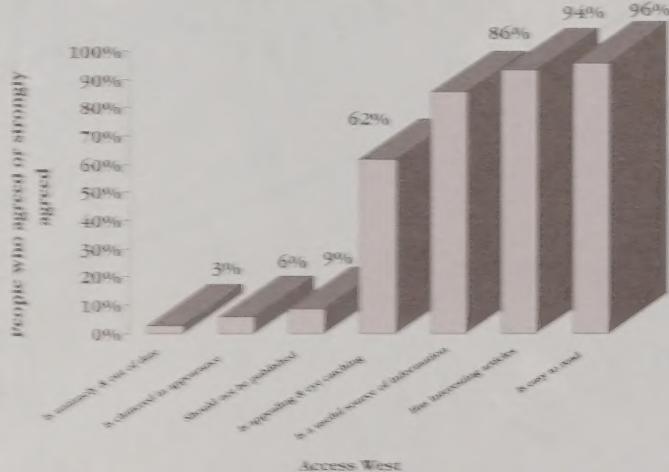
Readership Survey Results

I would like to thank everyone who contributed to Access West survey. The information provided will help make this a better publication and provide readers with the most needed information. A few highlights of the results and some of the additional comments show:

- The majority of Access West subscribers read 80 per cent of this publication.
- The most useful information is current news as it relates to small business and information on government programs and services.

Based on the information provided, here are a few planned improvements:

- The newsletter format will be adjusted to portray a more business orientated publication.
- The regional insert will be moved so it doesn't interfere with the flow of the newsletter.
- Stories will be kept to a page or continued on the very next page, if possible, and not further in the newsletter.



What people most prefer to read in Access West:

Thank you again for your participation. The winners of WD's Millennium CD entitled *Go West* are:

Terry Lindell of Manitoba Daryl Friesen of Alberta
Jack Evans of B.C. Helen Beslic of Saskatchewan

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Is your Business Missing Out on Easy Cash?

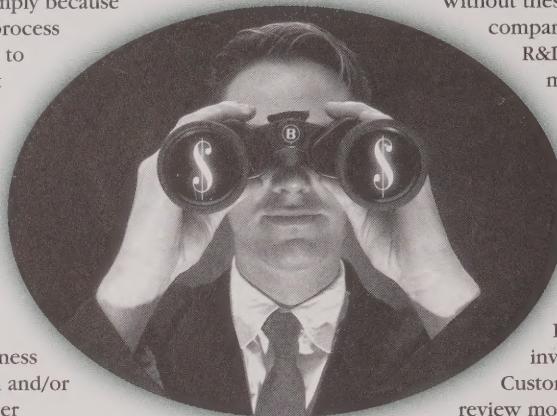
Cash strapped small businesses are not applying for federal research tax credits simply because they're not aware of them or the process sounds complicated and unrelated to what the business does. But, don't let that fool you.

The program is called the **Scientific Research and Experimental Development Tax Incentive**. However, words like "scientific research" and "experimental development" suggest complex research and development (R&D) projects and may confuse the typical small-business owner. In reality, product research and/or development activities can be rather "ordinary" as long as they are linked to some type of technological advancement.

Simply put, if a project involves the development or enhancement of a product or research into a new process or approach that may provide increased efficiency or cost-efficiency in the production process, it may qualify for R&D tax credits. Even if, an entire project is not be eligible for tax credits, parts of the project may still qualify.

The types of projects can be as diverse as the people behind them. For example, projects could involve research into a new processed food item like a low fat brownie or muffin, the development of new software or hardware, investigations into new and innovative applications using alternative materials, or time and effort spent inventing a new farm implement. It's also important to realize that projects which don't result in a marketable product may also qualify for tax credits.

The ultimate purpose behind the R&D tax credit program is to encourage Canadian companies to develop new products or



better ways of doing things - an innovation incentive.

Without these incentives, most Canadian companies would not consider investing in R&D. It takes a lot of time, effort and money.

To qualify for tax benefits, a company or individual must keep good records and capture the details associated with a project and its component parts. Expenses associated with wages, materials, machinery, equipment, and some overhead and contracted R&D costs are eligible for the investment tax credit (ITC). Canada Customs and Revenue Agency (CCRA) will review most ITC applications; so, businesses must have their paperwork in order. A firm's accountant can usually manage this information. Guidance and support from CCRA is free.

An information kit is also available which can be mailed. CCRA can also provide a workshop or seminar in your area to explain the program, its benefits and the requirements to your clients or clients' accountants.

If you are interested in either of the above, contact one of the program coordinators in your region, or visit the CCRA web site at: www.ccra-adrc.gc.ca/sred/

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